



Vivimed



Vivimed Labs Limited
Q3 FY2015
Earnings Conference Call

Management:

Mr. Santosh Varalwar, Managing Director and CEO

Mr. Saurabh SG, Director, Corporate Strategy



Moderator: Ladies and gentlemen, good day and welcome to the Vivimed Labs Limited Q3 FY2015 earnings conference call, hosted by Anand Rathi. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by entering “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sriram Rathi from Anand Rathi. Thank you and over to you Sir!

Sriram Rathi: Thank you Melissa. I welcome you all to the Q3 FY2015 results conference call of Vivimed Labs. We have the senior management team of Vivimed Labs with us today and will basically clarify all the doubts which you people have and also update you on the Q3 results. So I will hand over the call to the Management of Vivimed Labs. Thank you.

Santosh Varalwar: Good afternoon everyone. I am Santosh Varalwar, Managing Director and CEO of Vivimed Labs. Thank you for joining us on this call today. It seems to be a bright and sunny day in Hyderabad as well as in Mumbai. By now you would had a chance to go through the earnings presentation and financial results which are also available on the company website.

Moving to discussion on the performance of the quarter, I will start by providing the overview of our financial performance and strategic initiatives and then I will pass on the call to my colleague Saurabh to provide you detailed operational overview.

Q3 FY2015 has been a quarter of stabilizing operations at Vivimed Labs. As you are aware we have made significant investments over the past few years in enhancing our capabilities and creating a platform for future growth of the Company. As evident in our performance of the quarter, we have been able to achieve a stable and profitable performance which forms the base for next stage of growth. Revenue growth in Q3 FY2015 was 2.7% resulting in total sales of Rs. 3,447 million. Net sales have been flat on year-on-year basis due to delays in existing product ramp up in both the Healthcare and Specialty



Chemicals segments. However the profitability across segments have improved significantly due to benefits of changing product mix, ongoing cost optimization initiatives and lower raw material prices mainly in Specialty chemicals.

EBITDA for the quarter was Rs. 603 million representing a 12.4% growth year-on-year. EBITDA margin was 17.5% representing a significant improvement of 152 bps. During nine months of FY2015 EBITDA grew by 11.1% with 16.7% margins, an improvement of 100 bps. Depreciation during the quarter was higher on account of the revision in the useful life of the fixed assets as per new Company's Act. Depreciation for Q3 FY2015 was higher by Rs. 20 million. Finance cost for the quarter was Rs. 194 million compared with Rs. 156 million in Q3 FY2014 and Rs. 197 million in Q2 FY2015. This year-on-year increase was due to higher INR borrowings in the standalone entity.

Net profit margin during the quarter was Rs. 206 million representing an increase of 8.3% year-on-year. Net margin of 6% was benefitted by deferred tax asset in the healthcare subsidiary. In the API segment we have a strong order book both in the generic and CMO businesses which give us the confidence to continue the growth momentum. Our Formulation business reported a strong performance with India Institutional volumes picking up and select brand expansion in the pain management and antibiotic formulations. Specialty Chemicals business continues to be robust with improving profitability levels as we focus on new product launches for the existing customers as well as expansion of our customer base.

We remain focused on investing in our global R&D capabilities and new product filings to build a strong pipeline to drive growth in the coming year.

With this I would now hand over the call to Saurabh. Thank you.

Saurabh S.G.: Thank you Mr. Santosh. Good afternoon to everybody for joining the call today. I will start with providing you brief overview of the Healthcare business, which is our larger segment in terms of reporting and this



segment is two-thirds of the total consolidated sales which we have reported in the third quarter.

In the API segment, manufacturing volume has shown a consistent improvement over the last quarter and this has been the trend for the last couple of quarters. We will continue to focus on optimizing capacity utilization across the manufacturing facilities and harnessing a robust order book as was mentioned by Mr. Santosh. Going forward the API business is also expected to see better profitability as the benefits of the strong order book and lower raw material prices will start making a contribution at the EBITDA level.

In the Finished Formulations segment, performance improved significantly due to the volume growth in the India Institutional business as well as new brand extensions which started to come through the pain management and antibiotics branded formulations in India. The Finished Formulations business for us will remain an area of growth with new product launches which can be expected in the ROW and CIS markets this calendar year. In the regulated markets, the new product filings will be the key priority and an area of investment for us.

As you are aware, we have entered the regulated markets in the Finished Formulations side after the acquisition of Alathur facility around 18 months ago. We believe that our current India portfolio which we have in the US will see meaningful expansion towards middle of the next year. We expect to add at least three more products, which will be ready for commercialization and from there on we hope to track our targets of filing DMFs every year.

We have similar targets for the API business also in terms of new product filing and we hope to start filing for these new products starting this calendar year. We believe that the filings which we will initiate will differentiate us in the market space and help us to harness better profitability compared to what has already been achieved so far.

On the Specialty Chemical segment side, the total revenue for the quarter was around Rs. 110 Crores, it was up sequentially by nearly



11% but flat year-on-year. Our EBIT margin was 24.5%, growth of nearly 400 bps year-on-year. This growth in margins is largely attributable to the rationalization of the products which we have done and we have spoken about this consistently over the last couple of quarters. Today we have made Specialty Chemical business as higher revenue and gross margin contribution from products which are more recent and where we have been able to also increase our process efficiencies, which have led to better margin profile for the business. So the improving margins are an outcome of two things, one the product mix which is now more in skew of newer products where we have better pricing power and two is on account of personal care segment efficiencies which we have already clocked in for the older products which is helping us to sustain these margins over a period of time.

To talk in more detail about this second segment, the personal care segment manufacturing volumes were largely driven by the skin and hair care products which help offset the subdued off take which persists and led to a certain customer accounts business being deferred by three to four months. In the home care segment, the volume for Antimicrobials remains muted, which is partly offset by the increased volume of specialty dyes which is also good for the product mix.

Overall in terms of where we are in the nine months, we are reasonably happy that the things are moving in the right direction. We expect it to start translating into sustained improvement in our return ratios over the next five to eighteen months. We have managed to improve margins to a reasonable extent and we believe that going forward better revenue growth, lower raw material prices and linear operating cost base will help us to deliver a sustainable performance in terms of margins and profitability.

With this I would now like to open the floor for the Q&A.

Moderator:

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Ashok Shah from Lucky Finance. Please go ahead.



Ashok Shah: Good afternoon to everybody. My question is regarding the utilization for US FDA plants. So what is our capacity utilization during the quarter and now over the last nine month. Second question is what action has been taken on debt repayment?

Santosh Varalwar: Regarding the capacity utilization, we have three US FDA plants in APIs, two in Spain, one in Mexico and the fourth one is a formulation plant in Chennai. As far as the formulation plant in Chennai, the capacity utilization is probably below 20% at this point of time as we still have got only one product, Losartan which is commercialized. These are the products to come through and probably will also have some contract manufacturing for the US market for certain customers which will also kick start in the next quarter. I think the capacity will go up; otherwise at this point of time it is below 20% capacity utilization and we have a capacity for capsules, which probably is like hardly utilized and coming back to the API plants, Mexico plant capacity utilization is almost close to 70% - 75%. It is a 24x7 plant, around full time and recently we have done some capital additions in terms of clean rooms addition and other things as per the need of US FDA and ANVISA requirements. We have added a few things but yes we are still above of 25%-30% capacity of a level which is going to be meant for new products that we are going to launch very soon. In Spain, I think again both these plants are running at 70% capacity inclusive of whatever additions we have done in August 2014 to enhance the capacity for CMO business with innovator companies. So our guess is that whatever outlook that we have for the business in the next year and whatever projects in hand, whether it is a new generics or new CMO business, we have 30%-35% buffer capacity that we have cumulatively for API should be of handy to us.

The second question is about debt. As I mentioned in my last earnings call, our company has taken some initiative to reduce the INR debt by working with the existing Indian bankers. So there is a provision made with RBI recently there is a proposal which we have already given to the Indian banks. Out of that one bank has already sanctioned it and we are expecting the other two banks to also come around and complete the sanction based on the approval of the existing bank. So we are



expecting at least by March ending we should have the EPBG in place which means the whole INR debt sitting in India will move to the subsidiaries outside India and it will be at much lower cost of interest compared to what we have currently. We are expecting to do at least a saving of about Rs. 20 Crores.

Moderator: Thank you. We have the next question from the line of Kunal Sabnis from VEC Investments. Please go ahead.

Kunal Sabnis: Thanks a lot for the opportunity. On the Spec Chem side the operational performance has been pretty strong in terms of revenue and I think margin also jumped. I think EBITDA margin should be closer to 27%-28%. So two things, one on the revenue side, can we see this growth continuing in future years or there are some one-off contracts which are being executed, which has been responsible for this quarter-on-quarter growth. In terms of margins, do you think that such high level margins are sustainable? Is this industry phenomenon or some external factors impacting the margins?

Santosh Varalwar: Specialty Chemical, if you see the last at least seven to eight quarters, the trend was that the revenues, as you observed, have not been growing but product optimization was happening, product rationalization was happening. We got rid of low margin products eventually over the last few quarters and today what we see mainly the ingredients that are there and they are in hair care and skin care space. Couple of things which are responsible for spike in EBITDA margins of Spec Chem is that, particularly the last quarter there has been substantial improvement in the cost of processes. The cost of raw materials for three, four major products which are mainly on account of improved technology at our end and that has helped and product mix is also equally important. In a quarter when we do sell lot of photochromics, which has a gross margins of about 70%-75%, obviously that particular quarter you will definitely see the margin much higher. And also it is very important, as I said, about the product mix that is changing, skin care products and certain anti-dandruff products which have contributed quite a bit of margins in the last quarter. So going forward my guess is that, these margins are sustainable, but yes, probably, there will be a



shift about 200 to 300 bps based on the product mix quarter-on-quarter. On a good quarter where photochromics business contributes quite a bit of revenue, in such quarter we always have a better numbers over there compared to otherwise. On a sustained basis, it is nice to assume anywhere from 22%-25% EBITDA can be sustained in the Spec Chem level and going forward since the product mix for the next year is going to significantly change with the introduction of certain new sunscreens which are getting off the patent and Vivimed is ready to launch them and I am hopeful that there could be some improvement coming from that side also.

Kunal Sabnis: Great and on the growth side is this momentum one off or should continue, I meant the sequential performance?

Santosh Varalwar: If you see Specialty Chemical, I think we really did not much grow much in terms of revenues for the last few quarters but yes, product optimization has occurred. Going forward, I think the ZPTO which was meant for Unilever; however, we have got the order last few quarters back but I think it was awaiting for regional approvals and finally the regional approvals has got through last month and then we started seeing the trickling of orders but I think the traction of orders will probably pick up from the first quarter of the next financial year and with that I think the revenues will probably see a significant jump and also the new product line which are going to come. I think probably next year we could see a spike in revenues going up because whatever we factored in terms of revenues increase in the current financial year, that have not occurred. Most of them got deferred so we will see the impact of the deferred as well as the new products next year.

Kunal Sabnis: Right, so, on the last call you had mentioned that some regional product approvals that we awaited- those we have all got or some are there?

Santosh Varalwar: Yes, we finally got it and order started trickling from South East Asia and the speed at which it should come has not started but we are expecting of course, by March I think this will come again. The biggest obstacle was getting approvals and that is all over and the initial orders have started going in.



Kunal Sabnis: Okay, and on the healthcare side, one thing I wanted to check was that, operationally I think last quarter the Mexico plant was shut for a while, even the Spain plant had some holidays and stuff but in Q3, was it operationally completely normal or there was some lag effect in terms of operational improvement in terms of utilizations which can come in Q4, since Q1 we did a margin of about 8.5% on healthcare side which we are not able to scale back. So do we expect that to come in next couple of quarters?

Santosh Varalwar: If you see the December quarter was a holiday season in Spain and in Mexico. So it had its own impact. So this quarter which began from January will get normalized and probably will get the full play. During December it was impacted partly due to customer audits and some improvements to be done in the Mexico plant, which resulted in lag of about 10 – 15 days on the production side. So they all catapulted in terms of impact but I guess going forward at least the current quarter and the second quarter, you would not see the impact of that.

Kunal Sabnis: So Euro depreciation helps you in terms of Spain's capacity utilization and growth of all in that part?

Santosh Varalwar: See, our expenses in Spain, operational expenses are all in Euro whereas 70%-75% of our earnings are in dollar and only one-fourth is Euro. So obviously that should go in favor of the Company.

Kunal Sabnis: That you feel should get realized maybe in quarter or two?

Santosh Varalwar: Yes, I guess, that should have an impact in the coming quarter which we are already seeing it now from January, February onwards.

Kunal Sabnis: Right, in the Ukraine launch which we had may be postponed for a bit, are we looking at that right now as things are stabilizing in that part of the region?

Santosh Varalwar: See what we are hearing in the last few weeks is something positive but it has not translated into any order books at our level. We are hopeful that the wind is blowing in our favor because we have already invested quite a bit in Ukraine. As we said in the past Vivimed plant in Jeedimetla



in Hyderabad is one and the only plant approved for the liquid orals and there is a huge demand for liquid orals in Ukraine and we should get the benefit of that. We are just waiting for this cloud to get cleared and then I am sure the capacity which we have created should be handy. In the meanwhile what we have also done is the Chennai plant has filed some products for registration and two products got GMP registrations. So once it comes, a part of benefit will also come to Chennai plant. The two products that we have filed in five dosage forms have good market in Ukraine. And we have also done some filings in Russia. So we should also have some kind of sales coming through in the few quarters from there also.

Kunal Sabnis: Okay, do you have any guidance on the tax rate. It was only 12% for three quarters. So will we see may be a similar tax outflow like we saw in Q4 last year like a 50% tax outflow. Anything on that if you can guide something?

Santosh Varalwar: In terms of tax, if you have seen it is in the range of about 11.5%-12%. So our guess is that we should stay below 20%, on 13%-14% is what we see the indication as we see now but more clearly can be said at the end of the quarter.

Kunal Sabnis: Okay, just a final question on the pledged shares. I think the pledged share is almost 66% of the promoter holding. Any specific reason why this has grown in the last couple of quarters and how do you expect it to reduce it in future?

Santosh Varalwar: We had some loans from different banks which had some documentation for inter-banking facility. So we were trying to negotiate with them but I think we had to stay and we had to give them comfort levels in terms of giving additional security to see that until joint documentation is done by all the banks, that will give them a kind of a comfort level and which is not going to be irregular in their accounts. So it is a conscious decision we have taken it will be State Bank of Hyderabad, Axis Bank – both these banks we have given them promoter pledge, but there was no loan taken or anything of that sort. It was additional security given to these banks until the whole joint



documentation happens and all the securities are perfect in terms of all the banks are concerned.

Kunal Sabnis: But it is pertaining to the historical loan or the new?

Santosh Varalwar: No, this is historical. This is a historical loan which did not get securitized, Axis Bank when they gave a loan at the acquisition time, we were supposed to pledge the assets of Mexico and Spain but due to local laws that was not possible to do it and we thought once we do a joint documentation in all the banks then everybody can get a pari-passu but that got delayed a bit and we were under bit of pressure from them. So we had to do a kind of a stop gap arrangement to see that the banks are happy but I think before end of March once you do a joint documentation, I am sure we will crossover this thing.

Kunal Sabnis: How much time will take to sort this out?

Santosh Varalwar: My guess in three months time, once everything is in place, they will release the shares back to us.

Moderator: Thank you. The next question is from the line of Raju Shah from Pragma Securities. Please go ahead.

Raju Shah: Good afternoon. My question is, in contract manufacturing how is the order book pipeline going forward?

Santosh Varalwar: It is about Rs. 150 Crores of revenue from India where we do contract manufacturing for leading companies like Novartis, our Indian domestic companies like Glenmark, Cipla, Lupin, etc. In the past we have definitely seen, our major contracts are with Novartis and Merck on nasal drops and nasal sprays but in the recent past we have also contracted some interesting business from Abbott. So we expect the business to continue to grow. Last year if you had seen I think it has grown up by close to 15%-20% and we have done capacity improvements in those areas also, particularly in plant in Kashipur and we also added some additional capacities in Hyderabad. So with these two things, the contract manufacturing business is looking still



promising. Customers still continue to want us to serve them in certain segments and I am expecting it to be pretty robust going forward.

Raju Shah: Sir since there was a violence in CIS country now seems to be settled down. So how we will benefit going forward as our investment is very huge in CIS country?

Santosh Varalwar: You are right. Actually we have invested close to Rs. 25 Crores in the plant in Hyderabad but ever since that I do not think we have had advantage taken from it because they got caught into the regulatory things. As explained in the past just now Ukraine we have more than eight products registered and majority of them are liquid orals, that is the complete differentiator compared to other companies and the margins are definitely much better in these kinds of product range. So I think the peace talks begin and we are expecting in the next one or two months, order flow starts we will be able to utilize their capacities pretty well. I also mentioned just now, we have initiated some product registrations from our Chennai plant, Alathur plant and US FDA plant. So will also take advantage of that and we already got two registration products with five dosage forms and there are at least another three products in the pipeline. So that will be interesting to see that some revenues will come from there and one product registration for anti-cancer products we got it from Russia. So we should see some revenues coming from there too and we also got some injectable approval, particularly couple of them where we are getting some contract manufacturing done from outside and supplying to CIS countries. Overall once I think peace process settles down, we should see lot of interesting things for Vivimed in the next few quarters.

Raju Shah: Sir, one final question. Seems Q3 was flat topline in specialty chemical, but margin was on a very improving side. So now how is the specialty chemical order wise from here onwards?

Santosh Varalwar: As I mentioned, Specialty Chemicals, it was flat, no doubt but there were a lot was product customization and optimization happened. One thing is that at plant level lot of cost optimization has happened in the last few quarters where our both the plants, Karnataka plant as well as



Hyderabad plant, where we recently cut down the operational cost improved quite a bit of it and now as I said I think we are awaiting for launch of those new sunscreens which have gone off patent, we are waiting for approvals from our customers like L'Oreal, P&G and Unilever which we guess at least the second half of next year we will have these approvals and one other significant addition is skin lightener which we have finally scaled it up. We have already started sampling to our customers and once we get approval from that, it is a high margin product and we are expecting the next year these new products should contribute substantial for our top line as well as bottom line.

Moderator: The next question is from the line of Ashwini Agarwal from Ashmore India. Please go ahead.

Ashwini Agarwal: Good afternoon Santosh and team. Quick couple of questions. First is, what is the outstanding debt as on December 31, on the books and if you break that up for Indian rupees and dollars and what other currencies that might be?

Saurabh S.G.: I think the debt level ratio is similar to what we had in the first half, so that is close to Rs. 770 Crores and in terms of long-term will be around Rs.430 Crores and the balance will be working capital for both facilities.

Ashwini Agarwal: How much of this is rupee versus FX?

Saurabh S.G.: Excluding working capital of around Rs.85 Crores – Rs.90 Crores everything will be rupee. In the working capital side and the long term side we have nearly Rs. 180 Crores of rupee loans.

Ashwini Agarwal: Just curious, if you do shift some of these debts on to your overseas subsidiaries, optically yes, the level of interest or the rate of interest that you pay will come down but you will also assume some amount of FX risk which might complicate things further. How do you think about that when you look at the FX risk on borrowed money?

Saurabh S.G.: I will answer this question Ashwini, It is based on the exports that we are doing to our subsidiaries. We have actually three operating subsidiaries outside India, one is Vivimed Labs Europe, Vivimed Labs



USA and third is UK. Our exports to Vivimed Labs Europe are over Rs. 150 Crores every year and to USA are almost Rs. 100 Crores and Rs. 50 to Rs. 70 Crores to Spain. I think most of our business is exports and typically the way it functions is, when we are exporting, we are exporting in dollars and the loan will just move from our books and remain there under a guarantee from here. So it has got a natural hedge. So the impact will not be on any of the things, so it will not further complicate. It will just take care of it and our outflow is going to be such that based on our exports, a part of our exports will be going for the payment of the loan.

Ashwini Agarwal: When we are looking at the current financial year and the next financial year, how do you think about this level of indebtedness, what are your capex commitments, what kind of debt levels would you be comfortable with in the medium term?

Saurabh S.G.: Today whatever debt levels are there, if you probably observe last few quarters, it has been more or less steady. It has not come down. It has been there and we have done some repayments but in terms of capital expenditure significant capital expenditure we have already done in the last few years. So we do not see any major capital expenditure going forward other than the maintenance capital expenditure. It is typically about 3%-5% of our revenues. So we feel that on a going basis to bring down the debt by about Rs. 100 Crores per year is doable and as we also mentioned in the past in the last quarter also, we are also trying to monetize few things, one is the land that we have in Vizag; however, we are waiting for the budget to get announced and see what kind of sops those areas are going to get and there will be some kind of a demand coming in, so we are waiting for that. I think once we have clarity on that, we are going to monetize those things. So once that comes, one single deduction will happen. So my guess is that with the increase of EBITDA year-on-year from here onwards and debt coming down even if I assume about Rs. 100 Crores per year, your debt to EBITDA ratio will significantly fall down or will come much below than what levels it is there today.



Ashwini Agarwal: On the Healthcare margins, EBIT at 6.4% and I am guessing EBITDA would be slightly higher than 7% or 8%, this is significantly lower as opposed to what we would see for lot of pharmaceutical companies. Obviously you have very low capacity utilization at Alathur, a lot of your business is contract manufacturing as of today and as it shifts, and as Alathur gets filled up, this margin profile should improve. If you look at the next two to three years, do you think you can get to an EBITDA margin of say 15%-16% which would be what some of your benchmark or some of the companies were in similar businesses would report?

Santosh Varalwar: Yes, if you see three areas that we are operating, one is API/CMO in Europe and Mexico. That is reporting about 11%-12% EBITDA so far and revenues have gone up last couple of years but we also deployed additional people, additional cost in order to like we received the technical dossiers filed, DMFs and also focus on some R&D at the CMO side. We have invested, but the fruits of what we have done are yet to be seen here. We are yet to see the commercialization of DMFs that we filed and yet to see some of the projects which we have invested in CMO side to come in. My guess is that two to three years to come with all these things in pipeline, cost remaining where they are, I think we should see a significant movement upwards in terms of revenue and in terms of costs I guess we already flattened out. I think these are the costs which are going to stay with us, the operational cost about the plant in Spain as well as in Mexico, I do not see any surge of the cost going up but any impact on revenue from hereon should straight away go down to add to the EBITDA. So that is one thing and second thing as we already mentioned, Alathur is today operating at a very low capacities and whatever initiatives we have taken in the last 18 months, whether it is in the form of a new products that are going to come in or interim relief, some kind of a contract manufacturing that we signed with couple of Indian companies inflows come and revenues coming from that. I think we will definitely see that impact come again. I would definitely see that these impacts coming in the second half of the next year if not in the first half of the next year and whatever today we are incurring the operational losses there, which I think clearly last 12-18 months we have had operational losses with us, we were just spending



money to file DMF and file ANDAs. So I think that gets arrested and automatically that will have an impact on your margins of healthcare business and third thing clearly I think we have installed a capacity at Jeedimetla for Ukraine and CIS and last full year we have not seen any revenues coming from that. Once the revenues start coming in if these three things, definitely we will see more than 16%-17% next year and we should inch towards 20%.

Ashwini Agarwal: Thank you so much and all the best.

Moderator: Thank you. We have the next question from the line of Shikha Jain from Anand Rathi. Please go ahead.

Shikha Jain: Good afternoon. Thanks for the opportunity. My question is on, how many products have been launched in US and revenues from US for this quarter?

Saurabh S.G.: Shikha, I think in the US in the formulation side as I mentioned earlier, today there is only one product which is commercial for us which is Losartan and we expect that June, July we will have at least another three products which will get approvals for, so that is what in the US market side. Going forward in this calendar year, we expect that we will file close to three to four ANDAs at least this year and we expect to take that number up in the coming years and reached to a level of 5% to 6% product coming through.

Shikha Jain: On the revenue side, how much were the contributions for this quarter?

Saurabh S.G.: If you look at the healthcare business, roughly the formulations will be one-third of the healthcare business and if you look at Alathur, we are doing the current capacity utilization level probably \$7 to \$8 million for annual revenues, so you can extrapolate that on quarterly basis that is the number have done for the quarter.

Shikha Jain: How many filings have been done till now in US?

Saurabh S.G.: As I mentioned we have one which is commercial and we expect to get three approvals.



Shikha Jain: What is revenue guidance on US for the next year?

Saurabh S.G.: So, I think in terms of the products we are seeing, we hope to have at least four fully commercial products and I think that should help take revenues up and Mr. Santhosh described elaborately to the previous question. The revenue utilization number is something which is the key for us because right now, that is underutilized and I think once we start getting the numbers up we should be able to reach the levels, but I think on the US formulation side from whatever \$7 - \$8 million we are today I think everything come together, there is no reason that they should grow significantly over the next couple of years.

Shikha Jain: Thanks.

Moderator: Thank you. The next question is from the line of Sreenivasan K. N. from PL India. Please go ahead.

Sreenivasan K. N.: Just to simplify things for investors. What kind of revenue guidance will you be able to give for the next two years compounded?

Santosh Varalwar: I think we have mentioned about I think definitely are going to look at 15% to 20% year-on-year growth on where we are today.

Sreenivasan K. N.: My next question Sir, I mean on your capital employed of around Rs. 1,450 Crores between specialty chemicals and healthcare, now that you are significantly underutilized, if the utilization levels were to become quite significant, what is the kind of revenue you can generate out of this capital employed as a turnover if one were to talk of assets turnover?

Santosh Varalwar: About 35%, 40% of API capacity is still unutilized and formulation, we said about 80%, 90% capacity and also we have land bank. I think in my opinion if we square of all I think we should easily do about 1.5 X revenues from where we are, with the same capacities.

Sreenivasan K. N.: 1.5 times capital employed should be the peak revenue potential from the capital employed?

Santosh Varalwar: Existing, right.



Sreenivasan K. N.: Sorry to make you repeat this. You said capacity utilization in specialty chemicals is what percentage Sir?

Santosh Varalwar: It is 65% there and in formulation US FDA approval facility, it is below 20% as I mentioned and again in capacity utilization API plants about 65% capacity utilization.

Sreenivasan K. N.: Thank you.

Moderator: Thank you. We have the next question from the line of Ashok Shah from Lucky Finance. Please go ahead.

Ashok Shah: My question is regarding some equity placement promoter was going to subscribe, whether it is completed? Secondly there is some further placement is going to take place. So, can you give some guidance or timeline within which this will be completed?

Santosh Varalwar: The matter is with SEBI. We had a meeting this month. We are waiting for the minutes of the outcome of the meeting. Once I think SEBI approval comes then we have investor to return our capital as well as both of us will be putting money in the company and we are not sure whether it will come in this financial year if it comes in the money will come in this financial year and whereas any other way of raising equity we have not started any process whatsoever.

Ashok Shah: What could be equity dilution expected to takes place?

Santosh Varalwar: Other than this number of shares, it is 15 lakh share that we are talking over the present thing which comes to about 7%, 8% dilution. I think we have not planned for anything more than that.

Ashok Shah: Thank you.

Moderator: Thank you. We have the next question from the line of Ashwini Agarwal from Ashmore India. Please go ahead.

Ashwini Agarwal: I had followup question. How large is this land in Vizag and what could be the ballpark value as of today?



Santosh Varalwar: The land size is substantial. It is about close to 300 acres there. What we are going to do is that a part of it we will still keep it for future growth potential. The idea is that at least we will retain 100 acres which probably company might need based on the growth plans and other things, so what we are kind to monetize is about 200 acres and with the present cost today we are sure at least we will have a generation about Rs. 70 to 80 Crores, my guess.

Ashwini Agarwal: In response to previous question, did you say that you expect 50% to 60% growth or 15%?

Santosh Varalwar: 15% to 20%.

Ashwini Agarwal: 15% to 20% and you answered my question the previous time 3% to 5% of revenue, Rs. 50/ 60 Crores capex, would that be a good number to work with for forecasting purposes?

Santosh Varalwar: I think it should be below 75 Crores that is the good number to work with.

Ashwini Agarwal: Thank you so much Santosh.

Moderator: Thank you. As there are no further questions, I would like to hand the floor back to the management for closing comments. Please go ahead.

Santosh Varalwar: Thank you very much everybody. I think we did deliver in terms of numbers, but as I said capacity utilization are still way off and filings are in process and work at Alathur which is the major thing we are yet to see some revenues flows coming in, some profitability coming from there. As far as Vivimed is concerned today it appears that the traction is good, visibility seems to be good in terms of our CIS business once it opens up and again for the US business once we have all the three products coming in the next few months and again some DMF filings. It appears that we are all set. We have a clear roadmap in terms of formulation growth, in terms of API growth, and in terms of CMO business in Europe. Spec Chem, although, it was flat last year but there is definitely a reason to smile. We have four new products in the pipeline which will hit the market very soon, maybe like in the next



couple of quarters, I think with all these again it is very future optimistic and we will keep you posted and probably we will join again the next time in earning's call and approach you what we have done. Thank you very much everybody. Thanks for being with us.

Moderator: Thank you gentlemen. Ladies and gentleman on behalf of Anand Rathi that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.

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Note: This transcript has been edited to improve readability

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